



Top Canola Marketing Strategies

Farm Facts

Produced by Saskatchewan Agriculture and Food and Saskatchewan Rural Development

Introduction

Marketing of canola is a topic of great interest to canola growers. This fact sheet describes the major methods by which farmers in Saskatchewan market their canola and discusses the marketing strategies which provide the highest returns to canola growers. Prices and returns for canola were examined from 1980 to 1988.

Futures contracts are the key element in the canola marketing system. Marketing strategies for canola depend upon prices and contracts which depend on the future delivery system. A good understanding of futures contracts will assist in developing an effective marketing strategy.

Canola futures are contracts for the future delivery and sale of canola at specific locations in western Canada. These contracts are bought and sold on the Winnipeg Commodity Exchange and are the major mechanism for establishing canola prices. The cash markets for canola at local elevators are related to contracts for future delivery. The difference between cash prices and future delivery prices is known as basis. The level of basis depends upon the distances between the two markets involved and the time until the futures contract expires.

The actual amount of basis (the difference between local cash prices and future delivery prices) can vary substantially over time. Basis levels during the 1980s varied from a high of \$118.40 on August 12, 1981 to an inverted basis of \$179.07 on May 30, 1984. Variations in basis levels has important implications for marketing strategy. This is because a farmer

may be delivering grain to a local market, and fixing the price for that grain with contracts based on a terminal market. As a result, variations in the basis can affect the final net price received for canola. Cash markets for grain such as local elevators or crushers are only available by exchanging grain for cash. Alternative marketing strategies depend upon the use of contracts for future delivery of grain.

Farmers who are interested in learning more about the operation of future delivery markets should consider enrolling in a Marketing Risk and Management Course, sponsored by Saskatchewan Agriculture and Food. Contact the Farm Management Section, Saskatchewan Agriculture and Food at 787-5965 for information.

Marketing Strategies

Chart 1 shows the weekly Saskatchewan street prices for canola from 1980 to 1989. Canola prices are highly variable, and the time and method of marketing canola directly affects the profitability of canola production. During the period examined, the average seasonal variation in canola

street prices was \$97.90 per tonne. The average season low street price was \$250.08 per tonne and the average season high street price was \$347.98 per tonne. This provides an indication of the opportunities which exist for increasing returns through improved marketing management.

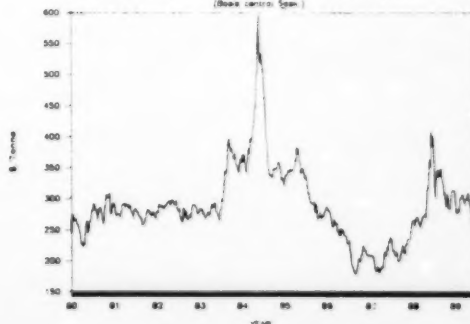
Today's farming is characterized by high costs and low margins. The opportunity to make or lose \$97.90 per tonne of canola marketed cannot be ignored. Most canola producers aim for the middle ground and try to avoid market lows. Producers can't expect to sell at the top of the market every year, but some producers may follow a pattern of marketing which results in below average returns.

Many producers spend very little time on marketing management compared to other aspects of farm management. The average street price for canola during the period was \$289.20 per tonne. A reasonable objective would be to aim for prices above average by selling in the top half of the market.

Any strategy which results in above average prices would enhance farm profits.

CHART 1

CANOLA STREET PRICES - 1980 TO 1989
(Basis: Canola, Spec.)



What are some of the marketing strategies commonly used by canola producers? This fact sheet examines the following pricing alternatives for canola:

1. Pre-production planning - pricing a portion of the canola intended to be grown prior to seeding.
2. Summer hedge - pricing part of the crop after planting but before harvest.

3. Cash sales - sale of canola out of inventory before the end of the crop year.

4. Business speculation - extending the marketing period by speculating on prices after the sale of the actual canola.

These pricing alternatives encompass most of the marketing strategies pursued by canola producers. There are several different types of contracts or selling methods which can be used to implement each of the above pricing alternatives. This information is summarizing in the following canola marketing calendar:

Canola Marketing Calendar

Year 1			Year 2		
Pre-Seed Hedge		Summer Hedge	Cash Sales		Speculation
X			X		
Jan. 1	June 1	October 1	August 1	Dec. 31	
deferred delivery	deferred delivery	street sales	deferred pricing	cash for futures	
target price	target price	crusher sales	cash for futures	graded storage	
short futures	short futures	producer or dealer cars	long futures	basis contract	
		target price	target price		
		long futures			
		cash for futures			

Marketing Strategies

Which of these marketing strategies yielded the top returns to canola growers during the 1980s? Table 1 below shows the results of the alternate marketing strategies from 1980 to 1988.

Canola Market Returns 1980 to 1988
(\$/Tonne)

Crop	Spring Hedge (Jan to May)	Summer Hedge (June to Sept)	Cash Sales (Oct to July)		Business Speculation (Aug to Dec)	Top Strategy	Top Marketing Strategy
			High	Low			
1980	252.97	301.35	307.20	222.90	249.87	322.20	Hedge on Sept. 3, 1980
1981	301.39	315.24	296.40	270.20	267.27	349.00	Hedge on July 15, 1981
1982	295.40	301.63	294.70	264.80	366.09	414.60	Business speculation until Sept. 21, 1983
1983	277.79	326.90	595.77	341.70	451.14	666.20	Business speculation until June 6, 1984
1984	329.66	353.52	382.22	307.92	287.72	399.52	Hedge on July 18, 1984
1985	357.31	314.03	290.21	208.51	203.40	369.51	Hedge on April 10, 1985
1986	258.06	225.35	237.24	182.14	229.68	314.54	Hedge on Jan. 8, 1986
1987	201.92	213.97	408.73	210.63	311.15	421.53	Business speculation until June 22, 1988
1988	<u>268.95</u>	<u>365.89</u>	<u>319.38</u>	<u>241.88</u>	<u>255.26</u>	<u>437.28</u>	Hedge on June 22, 1988
Average	282.61	301.99	347.98	250.07	291.29	410.49	

The cost of storing canola was not included in this analysis, which would change the net returns for certain years. Generally long term storage of canola was not a good strategy.

The average street price during the entire period was \$289.20 per tonne and average returns varied from \$282.61 for spring hedging to \$301.99 for summer hedges which indicates that on average no single time or method of marketing would

return a significantly higher return. Each of the strategies examined had high returns in certain years.

Picking the right strategy for each crop was essential and could dramatically increase canola returns.

The average high street price for cash sales was \$347.98 per tonne but in several years the street price during the September to July period never rose above \$300.00 per tonne.

Extending your marketing horizon through the use of other pricing techniques is necessary to achieve higher returns. The top marketing strategy in the highlighted column in Table 1 shows the maximum return which could have been obtained from each of the crops by selecting the top marketing strategy.

Top Marketing Strategies

How can canola producers pick the top marketing strategy without selling too soon or waiting too long and missing the market?

Consider the following facts: using the two-year pricing calendar, the lowest price a canola grower would have been forced to accept during the 1980s was \$314.54 per tonne. This means that a canola grower could have sold every crop at a price at least equal to \$314.54 per tonne. If a canola grower had sold each crop the first time that \$314.00 per tonne, or a higher price was available, returns would have averaged \$327.51 per tonne over the period, or \$38.31 per tonne above the average street price.

A canola grower who always priced a crop when \$300.00 per tonne could be obtained would have received an average price of \$317.22 per tonne or \$28.02 above the average street price during the period.

These examples illustrate the type of increased returns that are possible with the right marketing strategy. An effective marketing strategy has several essential characteristics:

1. A benchmark price - the main concern of a marketing plan is to decide when to price a canola crop. A plan must contain a price, or price formula which will determine when to sell. The benchmark price must be independent of events of the day.
2. The plan must be adhered consistently. On two occasions during the period examined, a

previous year's crop and the next year's production should have been priced at the same time. Both these price peaks were characterized by high expectations which were not fulfilled.

3. A plan should sell smart by paying attention to details such as basis levels, types of contracts available, dealer/producer cars, grade and dockage levels, price premiums/incentives and storage costs.

Implementing a Canola Marketing Plan

Maximizing returns from Canola Marketing may require the use of many different selling methods and contracts. Some of the ways Canola can be sold are as follows:

Deferred delivery contracts:

- * Method of fixing a price for canola which is in inventory or which you intend to produce.
- * Failure to deliver will result in penalties if the price of canola increases. Penalties will be approximately equal to the amount of price increase.
- * The canola must be delivered within a specified period, usually 30 days. The contractor may extend the delivery period if there is insufficient quota or elevator space.
- * Canola must be delivered on this contract before any other sales are made.
- * Discounts for lower grades should be stated.

Short futures:

- * A method of fixing the price for future deliveries or production.
- * A grower must establish an account with a registered commodities broker and instruct the broker to sell a future delivery contract for a specified month and price.

- * The hedge is completed by purchasing a long contract and selling the cash canola.

Target or price option contracts:

- * Not to be confused with option contracts which may be introduced by the Winnipeg Commodity Exchange.
- * These contracts fix a price at which a deferred delivery contract will be executed if prices reach that level.
- * These contracts do not take effect and expire at a certain date if the price has not been reached.
- * A low risk form of speculation.

Cash call/dealer cars:

- * During recent years, producer cars offered an effective way for some producers to "beat the basis" but these cars are no longer available.
- * Cash call contracts fix a price for future delivery of carlots of canola at a discount to terminal prices.
- * Dealer cars may be used to fix prices for future delivery, or may be a means of speculating on future prices if the car is shipped unpriced.

Deferred price/graded storage contracts:

- * These are a short-term method of speculation.
- * The canola is delivered and graded and a price must be established within a specified time period ranging from 10 days to six months.
- * The price used is the contractor's street price.
- * Storage charges may be waived for a certain period.
- * Some contracts offer cash advances but the grain will be sold if price falls below the cash advance level.
- * The grain is priced when the contract expires.

Basis contracts:

- * These are a medium-range method of speculating.
- * The grain is delivered and graded and a price must be established within a specified time.
- * The price used is a specified futures month less a specified basis.
- * There may be no storage charges and a cash advance may be available.
- * Good contract to use when a low basis can be locked in.

Long futures contracts

- * Allow indefinite price speculation.
- * A method of speculating on the price of canola which has been delivered and sold.
- * Require establishment of a trading account.
- * The contract is completed by selling a short contract for the same month and location.
- * This is known as business speculation.

Cash for futures contracts:

- * These are contracts which allow price speculation after the canola has been sold.
- * The contractor will purchase long futures on your behalf for the amount of canola which you have sold.
- * Similar to long futures but do not require the producer to establish a trading account.

Summary of Top Canola Marketing Strategies

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| <p>1980 The top price for the 1980 crop was obtained by hedging on September 3, 1980 taking advantage of a high harvest basis (\$89-\$90/tonne to Jan. futures). Cash sales on December 3, 1980 at a \$51.80 basis yielded a net price of \$322.20 per tonne.</p> <p>1981 The top price for the 1981 crop was obtained by hedging on July 15, 1981 when the June basis was \$112.40 per tonne. Closing the trade on February 24, 1982 at a basis of \$45.00 yielded a net price of \$349.00 per tonne.</p> <p>1982 The top price for the 1982 crop was obtained by storing canola until July of 1983 and speculating until September. Cash sales in July at a street price of \$280.20 were converted to January futures. The peak price on September 21, 1983 yielded a net return of \$414.60 per tonne.</p> <p>1983 The 1983 crop was best marketed by selling cash canola on December 7, 1983 and carrying long futures until June 6, 1984 for a net return of \$666.20 per tonne. This was the top price of the decade.</p> | <p>1984 The top price for the 1984 crop was obtained by hedging in July 1984 during the same price peak when the 1983 crop was sold. The hedge was closed on April 24, 1985 yielding a net price of \$399.52 per tonne.</p> <p>1985 The top price for the 1985 crop was obtained by hedging in the spring prior to seeding. November futures were sold at \$407.10 on April 10, 1985 and the hedge was settled on October 16 for a net price of \$369.51.</p> <p>1986 Prices declined through 1985 and 1986 so the best returns were obtained by hedging as early as possible. Top returns were obtained by hedging on January 8, 1986 and settling in November for a net price of \$314.54. The lowest price of the decade was \$178.04 per tonne on September 3, 1986.</p> <p>1987 The best price for the 1987 crop was realized by storing the crop until February 24, 1988 selling at a street price of \$268.03 and carrying long futures until June 22, 1988 which closed at \$456.50 a tonne for a net price of \$421.53.</p> | <p>1988 Prices peaked in early summer of 1988. The top price was obtained by hedging on June 22, 1988. The hedge was settled on March 15, 1989 for a net price of \$437.28 per tonne.</p> |
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